

ECB's Linde on Need to Ease to Offset Deflation Risk

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Summary

ECB's Linde on the need to ease to counteract deflation risk – stressing that *“the Governing Council has to examine the situation and if it sees that this risk is not high but that it does exist, it'll have to take measures to anticipate this possibility, including further easing monetary policy if necessary”*.

Euro strength must be addressed says EU Industry Commissioner – Antonio Tajani, the European Commission vice-president for industry, argued that *“ahead of the European elections we must start a debate on this. We cannot have an industry policy without rethinking our currency”*.

Germany's Schäuble and Eurogroup's Dijsselbloem on the SRM – Mr. Schäuble noted that the EU must deliver clarity on bank levies, as it is still unclear how Resolution Fund will be filled. Mr. Dijsselbloem indicated that the Resolution Fund's ability to borrow would help prevent destabilisation.

France: Government mulling tax cuts for lower-income households – Reuters quoted a government source indicating that *“we are still in a preparatory phase, but there should be [tax] measures for households in the final [2014-15 budget plan] package”*. PM Jean-Marc Ayrault is expected to review the findings from a working group on household income tax on April 10.

French unemployment surges, French household confidence rises – The number of jobless rose by +31,500 in Feb (Mkt. +2.4k, Citi +5k) to a new 3,347.7k record. Foreign Minister Fabius said this must be tackled by *“amplifying”* the policy of improving competitiveness. Confidence gained 3pts to 88 in Mar.

Italy: Gov't wins confidence vote in Senate to scale down provinces – cutting 3,000 elected provincial administrators, according to PM Renzi.

Italy: Strong rebound in consumer confidence in March – possibly on increased optimism about new PM Renzi.

Spain: Economy to grow by 1.2% in 2014 and 1.7% in 2015 – estimates Bank of Spain in its latest economic bulletin, amid a pick-up in domestic demand. Fiscal deficit (excluding bank recap) for 2013 estimated to be 0.1ppt above the target of 6.5% of GDP.

Portugal: GDP to grow by 1.2% in 2014, 1.4% in 2015 – according to Bank of Portugal's new estimates, due to stronger domestic demand projections.

Greece: Government in search of agreement on reform bill – as 8 MPs threaten to vote down changes to rules governing the length of shelf-life for fresh milk and on pharmacy ownership.

Just out: Citi's Global Economic Outlook: Our global growth forecasts are unchanged this month, but we again trim our aggregate EM growth forecasts, (mainly reflecting a large cut to our Russia GDP forecast), while our forecasts for aggregate advanced economy growth are again slightly higher. For more, see

27 March 2014

Guillaume Menuet
+44-20-7986-1314

Giada Giani
+44-20-7986-3281

Ebrahim Rahbari
+44-20-7986-6522

With thanks to Antonio Montilla & Ann O'Kelly

Economics

Western Europe

Industrialised G7 Countries

Recent Research

UK — YouGov Report Further Drop in Inflation Expectations

27 March 2014

The median for inflation expectations in the year ahead edged down to 2.1% from 2.2% in Feb and 2.4% in Jan, and this is now the lowest since Dec-09. The median for inflation expectations in the longer term fell to 2.8% YY in March from 3.0% YY in Feb and 3.2% in Jan. This measure now matches the record low seen in Dec-08 and Jan-09 (when the economy was in recession and VAT was being cut). Both gauges of inflation expectations have now fallen for five months in a row.

Michael Saunders

The Exposure of Euro Area and EU Countries to Russia & Ukraine

25 March 2014

We summarise the measured direct exposures of EU and euro area (EA) countries to Russia and Ukraine. In our

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Today's News in Detail

ECB's Linde on the need to ease to counteract deflation risk – Bank of Spain Governor Luis Maria Linde noted during an event in Madrid on Wednesday that the ECB is seriously looking into deflation risk. Mr. Linde stressed that *"the Governing Council has to examine the situation and if it sees that this risk is not high but that it does exist, it'll have to take measures to anticipate this possibility, including further easing monetary policy if necessary"*. Comment: the doves are voicing their concerns about deflation risk and the chorus is getting louder for the Governing Council to study carefully the possibility of a small rate cut at its April meeting. We continue to expect more monetary policy easing from the ECB in 2Q-14, but believe that June is slightly more likely as the Governing Council could be in a better position to announce a combination of policy measures, including its liquidity policy and some possible relaxation of some collateral.

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Euro strength must be addressed says EU Industry Commissioner – Antonio Tajani, the European Commission vice-president for industry, indicated at a conference in Milan on Wednesday that *"at 1.4 dollars, the euro hurts the economies of Spain, Italy, France and, in the long run, Germany"*. Mr. Tajani argued that *"ahead of the European elections we must start a debate on this. We cannot have an industry policy without rethinking our currency"*. Reuters reported that Mr. Tajani had noted that the ECB's mandate should be broadened to include low unemployment besides price stability, as for the U.S. central bank. Comment: this will be music to the ears of French industry minister Arnaud Montebourg who has been vocal about the excessively strong euro and the need to broaden the ECB's mandate with respect to price stability. Although the latter is unlikely to be considered, the strength of the euro is making central bankers take note, and some are openly arguing [like Mr Weidmann on Tuesday](#) that a deposit rate cut would be the most appropriate tool.

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Germany's Schäuble and Eurogroup's Dijsselbloem on SRM – German Finance Minister Wolfgang Schäuble noted in a *Handelsblatt* interview that the ECB must ensure it can meet the November deadline to assume banking supervision. He added that the EU must deliver clarity on bank levies, as it is still unclear how the Resolution Fund will be filled. Dutch Finance Minister Jeroen Dijsselbloem indicated before the Dutch parliament that the phase-in plan and the Resolution Fund's ability to borrow would help prevent destabilisation in countries whose financial systems are affected by major bank failures. Comment: with the deal now between the EU Parliament and the EU Council on the Resolution Fund, the details still need to be hammered out, including whether some institutions could be exempt and the formula that will allow calculating financial institutions' contributions to the fund.

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France: government mulling tax cuts for lower income households – French government spokeswoman Najat Vallaud-Belkacem told reporters after Wednesday's weekly cabinet meeting that the government was drawing a lesson from poor election results, pledging to *"work to restore the country faster with more coherence and social justice"*. Mrs. Vallaud-Belkacem also indicated plans to trim taxes on households *"eventually"*, following a period of stabilization in the fiscal pressure on households. Reuters quoted a French government source indicating that *"we are still in a preparatory phase, but there should be [tax] measures for households in the final [2014-15 budget plan] package"*. PM Jean-Marc Ayrault is expected to review the findings from a working group on household income tax on April 10. Comment: the government has little choice but

view, the potential exposure of the EA and EU economy to a crisis in Russia and Ukraine could be large. The exposure to a potential crisis through commodity links is the most important, with EU countries relying on Russia for roughly 20% of their total energy consumption, 25% of their gas consumption (with few available alternative supplies), and a sizable share of their oil and coal consumption.

[Ebrahim Rahbari](#) | [Giada Giani](#) | [Guillaume Menuet](#) | [Antonio Montilla](#)

Euro Economics Weekly — Euro Area: Upside Risks To Q2 GDP

21 March 2014

Business confidence upswing to continue — Historical patterns suggest that sentiment is likely to improve until summer, but that the room for upside is limited in Spain. Italy & Germany are in a comfortable position while France underperforms.

[Guillaume Menuet](#) | [Giada Giani](#) | [Ebrahim Rahbari](#) | [Michael Saunders](#) | [Antonio Montilla](#)

UK Economics Weekly — Raising UK Growth Forecasts Again

21 March 2014

We are again lifting our above-consensus growth forecasts, and now look for real GDP growth of 3.5% this year and 3.6% in 2015 (from 3.3% and 3.2% respectively). We expect the upcoming data will show CPI inflation down to 1.6% YoY in February (lowest since 2009) from 1.9%. Even so, with rising capacity use, we still expect the MPC will start to hike in Q4 this year. And, with our higher growth outlook, we now expect the initial hiking cycle will carry rates up to about 2.5% by end-2015.

[Michael Saunders](#) | [Ann O'Kelly](#)

Switzerland — SNB Keeps Policy On Hold

20 March 2014

The SNB left its interest rate target unchanged at 0-0.25%, and announced that it remains willing to intervene "in unlimited quantities, and to take further measures as required" to maintain its minimum exchange rate of CHF1.20/€. We still expect a further long period of stable rates (2-3 years or so), with the

to stick to its economic reforms and spending cuts, including a plan to phase out €30bn in payroll tax on companies in exchange for hiring more workers. But the poor showing in the first round of municipal elections on Sunday will probably force the government to give something to lower-income households in order to show that the expenditure savings planned for 2015-17 are not exclusively being channeled to the corporate sector in order to reduce labour costs. We see only two solutions to finance this possible tax cut for households: i) more expenditure cuts or ii) obtaining a delay from the EU in the budgetary adjustment.

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French unemployment surges while French household confidence rises—

The total number of French jobless rose by 31,500 in February (Mkt. +2.4k, Citi +5k) to a new record of 3,347.7k. This 0.9% MM uptick (+4.7% YY) was the largest increase since April 2013, barring the September surge caused by a computer glitch. French Foreign Minister Laurent Fabius remarked on I-Tele that the latest increase in jobless claims must be tackled by “*amplifying*” President Francois Hollande’s policy of improving competitiveness. **Household confidence rose by three points to 88** (1.4sd below its long-term average) in March (Mkt. and Citi 85) surprising to the upside. This was the largest monthly gain since July 2013, pushing the aggregate sentiment reading to a 21-month high July 2013. The largest contributors to the uptick in March were a 9-point gain in households’ future ability to save and a two-point increase in their assessment of their past financial situation. Our forward looking measure based on expectations rose by 0.2sd to -1.0sd, reaching its highest level since July 2012. Comment: despite having spent at least €2bn (0.1% of GDP) on subsidised job schemes to help engineer a turnaround in unemployment (the ILO rate dropped in 4Q-13), the government is caught between a rock and a hard place, having little choice but to push through with its reform agenda with great haste, if it wants the improvement in business confidence to be reflected in faster job creation and investment.

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Italy: Gov’t wins confidence vote in Senate to scale down provinces – The decree aims at cutting 3,000 elected provincial administrators as soon as May, according to PM Renzi, by avoiding holding elections in all provinces due to be renewed in the May ballot. The responsibilities of the provinces will be transferred to the regions or to local governments. A deeper constitutional reform aimed at abolishing the provinces completely is on the government agenda for later this year. The government was forced to put the decree to a confidence vote due to opposition emerging within the ruling coalition (especially from the small centrist parties) which could have threatened a defeat for the government during the parliamentary approval process. Comment: The measure is one of the main points on the list of policy actions presented by new PM Renzi. This is likely to be well received by voters, who generally see the provinces as a wasteful governmental body.

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Italy: Strong rebound in consumer confidence in March, possibly on

optimism about new PM Renzi – Consumer confidence posted a 4ppt gain and rose to 101.7, highest since Jun 2011. The index level remains 0.5sd. below its long-run average. The gain came almost entirely on the back of an improved assessment of the general economic situation, with unemployment expectations falling sharply, while the assessment of the personal situation improved only marginally, remaining almost 1sd. below its long-run average. Comment: The index level however should not really be compared with history given the methodological change in the index calculation introduced last June which produced a large jump in the series. Netting out for this effect, the index would still be not too far from the all-time lows. Yet the March increase was the first noticeable uptick of the past few years and it was probably associated with

emphasis on macro-prudential measures to cap housing and credit growth.

Michael Saunders

Scandi Economics Update — Norges Bank Meeting Could Well Turn Out to Be a Non-Event

27 March 2014

Norway — Norges Bank Forecast:

Stable rates and broadly a confirmation of conditional interest rate path.

Sweden — Weak NIER sentiment in March — NIER maintains that Riksbank should cut repo rate in April — Household lending for Feb (out at 8.30 UK time) — Riksbank speech.

Tina Mortensen

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households' improved optimism around the newly appointed PM Renzi.

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Spain: Economy to grow by 1.2% in 2014 and 1.7% in 2015, Bank of Spain says – In its latest economic bulletin, the Bank of Spain (BoS) estimated GDP should grow by 1.2% this year and 1.7% in 2015, after falling by 1.2% in 2013. According to the BoS, the projected improvement in the macroeconomic outlook is based on a lower level of aggregate uncertainty, an improvement in employment, and a gradual easing of financial conditions. Domestic demand is expected to contribute 0.3ppt to 2014 real growth (after subtracting 2.7ppt in 2013) on the back of pick-ups in private consumption (estimated to rise by 1.1% vs. -2.1% in 2013) and investment in business equipment (6.3% vs. 2.2%). In addition, a strengthening of the external environment is also expected, although a likely acceleration in imports is expected to reduce the net export contribution to real GDP (to 0.8ppt in 2014 vs. 1.5ppt in 2013). The unemployment rate is expected to fall to 25.0% in 2014 and to 23.8% in 2015 (from 26.4% in 2013). In terms of fiscal policy, the BoS estimates that the general government missed its fiscal deficit target for 2013 by a small margin (0.1ppt, to 6.6% of GDP excluding bank recap costs), but that the improved economic outlook should allow for the 2014 fiscal deficit target (of 5.8% of GDP) to be met. Comment: we expect real GDP to grow by 0.9% in 2014 and 1.2% in 2015. (See our latest forecasts in [Global Economic Outlook and Strategy - March 2014](#), just out.)

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Portugal: GDP to grow by 1.2% in 2014, 1.4% in 2015, Bank of Portugal's new estimates showed – The central bank revised upwards its growth forecasts for 2014 to 1.2% from 0.8% previously and for 2015 to 1.4% from 1.3% previously. The largest upgrade came from domestic demand, which is now seen expanding by 1.2% this year, relative to virtually flat growth expected previously. 2014 inflation has been revised down from 0.8% to 0.5%, while it is expected to rebound to 1.0% in 2015. Comment: we expect real GDP to grow by 1.5% in 2014 and 1.7% in 2015. (See our latest forecasts in [Global Economic Outlook and Strategy - March 2014](#), just out.)

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Greece: Government in search of agreement on reform bill – amid threats from eight government MPs to vote down the measures agreed with the Troika. The most controversial changes are those related to the rules on the shelf-life of fresh milk and on pharmacy ownership, *Ekathimerini* reports, forcing the government to re-write the bill in order to keep its dwindling parliamentary majority together. MPs also claimed they had little time to study the measures ahead of a crucial vote which is supposedly to be scheduled for next Sunday. Comment: the fragility of the government coalition remains an issue but the interest of the ruling parties in having the bill approved and the next Troika disbursement released ahead of crucial May elections should outweigh attempts to preserve some vested interests in these still highly regulated domestic markets.

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Just out: Citi's Global Economic Outlook: Our global growth forecasts are unchanged this month, at 3.1% for 2014 and 3.4% for 2015. We again trim our aggregate EM growth forecasts, mainly reflecting a large cut to our Russia GDP forecast, prompted by heightened uncertainty and the CBR's recent rate hike. Our forecasts for aggregate advanced economy (AE) growth are again slightly higher this month at 2.1% for 2014. We make further forecast upgrades for the euro area, UK and Sweden. Spillovers from the Russia-Ukraine crisis are likely to keep geo-political tensions high near term. Nevertheless, Europe's high reliance on Russia for oil and gas (and Russia's reliance on revenues from fuel exports to Europe) gives both the EU and Russia an incentive to avoid outright trade

sanctions. We expect easing from the BoJ, ECB and PBOC in Q2/Q3, but the BoE will likely hike rates late this year, with the Fed hiking in 2H15. For more, see [*Global Economic Outlook and Strategy - March 2014*](#).

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Latest Issues of Sovereign Debt Update

“QE Is Not Out Of Question”, says Weidmann

27 March 2014

ECB: Weidmann on QE, negative deposit rate and deflation risk, Draghi on the exchange rate, Makuch and Viso on deflation risks, Liikanen on extra stimulus. G7 to meet in Brussels in June. EU exposure to Russia and Ukraine. Germany's ifo survey posts decline. Bol's Visco on Italy's debt burden. Italian exports to non-EU remain weak. Spain's Constitutional Court rejects Catalonia's sovereign declaration. Portugal's government budget improves in Feb. Slovenia's better March confidence reading.

[Giada Giani](#) | [Guillaume Menuet](#) | [Ebrahim Rahbari](#)

Germany's Q1 GDP Growth To Be Strong, Says Bundesbank

25 March 2014

Bundesbank says mild weather boosted Q1 GDP. ECB's Liikanen ready to take decisive action. Germany's SPD-led states oppose renewable energy levies on firms. German govt reduces planned 2014 issuance. France to continue structural reform despite election reversal. Spain: Troika returns to Madrid. Spain's car production rises in Feb. Greek central govt primary surplus rises, govt to distribute social dividend. Portugal: govt preparing fiscal consolidation plans for 2015.

[Giada Giani](#) | [Guillaume Menuet](#) | [Ebrahim Rahbari](#)

ECB Not Thinking About Changing Its Forward Guidance

24 March 2014

ECB: Constancio stands by current forward guidance, Knot says other tools available before asset purchases, Liikanen worries about impact of Ukraine on Finland. Flash March PMIs. Germany's SPD wants minimum EU-wide corporate tax. German banks' contribution to SRM. French municipal elections. French govt mulls cut in local authority spending. Italy's privatisation plans. Spain's govt rules out VAT hike, opposition PSOE ahead of PP in poll. Austria: nationalised lender needs more capital.

[Guillaume Menuet](#) | [Giada Giani](#) | [Ebrahim Rahbari](#)

EU Reaches Agreement on Single Resolution Mechanism

21 March 2014

SRM to apply to all SSM banks, resolution funds to be pooled over 8 years. EU Council to widen Russia sanctions list. ECB's Lautenschlaeger on rates. German Council of Economic Advisers raises growth forecast. Moscovici on French GDP growth. Italy: rise in 2014 deficit target may not be needed. EC may revise down Spain's structural deficit. Dutch and Belgian consumer confidence. S&P affirms Greece's rating. Greece: Threat to reform bill agreed with Troika. Slovenia's c. govt deficit in Feb.

[Giada Giani](#) | [Guillaume Menuet](#) | [Ebrahim Rahbari](#)

Provisional Deal on SRM Reached This Morning

20 March 2014

No details yet on provisional SRM deal. EU Council mull further sanctions against Russia. EU financial assistance to Ukraine. France's social security deficit undershoots target. Italy's Renzi to target 3% deficit in 2014. Italy: sharp

rise in NPL. Italy's Confindustria lowers GDP forecast. Spain: Rajoy No to proposed Catalonia referendum. Poor showing for coalition parties in Dutch local elections. Belgium's mainstream parties mull VAT hike. Greece: Troika maintains growth and fiscal targets.

[Guillaume Mennet](#) | [Giada Giani](#) | [Ebrahim Rahbari](#)

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Macroeconomic Forecasts

Global Economic Outlook and Strategy — March 2014

26 March 2014

Our global growth forecasts are unchanged this month. Within that, we again trim our EM growth forecasts, and lift forecasts for advanced economy growth. We believe risks to our EM growth forecasts remain to the downside. The spillovers from the Russia-Ukraine crisis are likely to keep geo-political tensions high nearterm. We expect easing from the BoJ, ECB and PBOC in Q2/Q3, whereas rising capacity use is likely to prompt the BoE to hike rates in late 2014, with the Fed hiking in H2-2015.

[Willem Buiter](#) | [Guillermo Mondino](#) | [Michael Saunders](#) | [Robert V DiClemente](#) | [Kiichi Murashima](#)

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Appendix A-1

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